12/4/21

1390 Business Center Drive, Conyers, GA

This property, a single-story flex-office/industrial building on 2.2 acres demonstrates positive attributes but also faces some challenges. Working in its favor are its location and proximity to Route 20, a main Thorofare to Atlanta (Airport, a 50 minute drive). The moderately-aged (1986) building also appears to be in good overall external visual condition; the roof appears newer and the asset is currently fully occupied. Within seven months after Jones Transport Service vacated their 5,250 SF space in January 2020, the space was leased to Southern Pipe & Supply for their expansion, going coterminous with their existing 10,500 SF through July, 2023.

With the exception of Melvin's Classic Ford Parts, the apparent inability to generate longer term leases may be a concern. Also, at the end of this month, November 30th 2021, the three suites that Innovative Radiology currently occupy will become vacant with no written indication of a future tenant(s) given at this time. Seeing as their lease extension following office renovations was only 3 years and the space will likely need TI work for the next tenant, the efficiency of the landlord TI outlay to return is minimized here. I would therefore recommend making an effort to renew Innovative Radiology. Alternatively, a positive aspect of Innovative's upcoming vacancy would be finding a different tenant to take this space and possibly later take Southern Pipe & Supply's suites that will become available in July, 2023, creating a single tenant or dual tenant asset.

Given that no additional leasing info was provided for these vacating tenants, I surmise that Melivn's might be taking the vacant suites after Innovative Radiology vacates, seeing as the scope of work for their current suite (#100) has no indication of office space (where Innovative's suites have newer offices) and instead shows an expanded warehouse space with a showroom. Also, by signing a ten-year extension a full year-and-a-half in advance of their lease expiry, Melvin's has demonstrated confidence in their long-term business plan and the desire to lock in this location to operate out of.

Even if Melvin's doesn't take the Innovative suites (not contiguous) now, they could expand in August 2023 by taking the Southern Pipe space (contiguous) and then consider taking Innovative' space in late 2024, (assuming a 3-yr extension for Innovative) and assuming demand for Melvin's parts continues to grow, as anticipated. Under the assumption that Melvin's will take the Innovative space, I modeled using Melvin's 2022 rent PSF of $4.35 and have them occupying the former Innovative suites on January 1, 2022, a month's vacancy to represent the turnover and readying the suite for their occupancy.

Exterior access to the rear of the property - dock doors is somewhat restricted with only one small access lane that abuts the property. This bottleneck would be alleviated if egress is permitted through the neighboring kitchen remodeler's lot and even more so if a single tenant eventually occupies the building alone, for traffic reasons. Single-tenant occupancy would also maximize the GLA for the property as internal demising walls and offices could be removed to clear room for maximum warehouse space. The only limiting factor would then be the lower (16-20 ft.) clear heights of the asset limiting vertical storage capacity, so having two tenants occupying and utilizing some of the existing office space also proves a viable business plan and as an intermediate step towards possible longer-term single-tenant occupancy, before ultimate disposition of the asset.

Capping the 2021 NOI at a conservative 6.92% yields a $1.5M valuation which is lower than replacement cost or cost to develop. Assuming you could acquire the property for $1.5M or less citing moderate leasing and possible traffic issues and capping the year 8 terminal NOI at the same 6.92%, with a conservative 65% LTV on the 4.25% rate debt yields a healthy 17% Levered IRR, having a lower risk profile. Being more aggressive with the assumptions can get you closer to a 25% return and when combined with similar properties in a basket would become very attractive to institutional investors and REITs at even further compressed cap rates yielding higher aggregate returns for the portfolio of assets.